

Advance Australia Fair?

What to do about growing inequality in Australia

Australia²¹

Speech Notes from the launch by Dr John Hewson

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Inequality is a significant, worsening and global problem. The extremes are obscene.

For example:

The Oxfam data provided to the recent Davos Conference namely that the richest 85 people on the globe – who between them could squeeze into a single double-decker bus-control as much wealth as the poorest half of the global population put together (3.5 billion people).

Or the Paul Krugman example, namely that the 25 highest-paid hedge fund managers in the US – all male – earned some US\$21 billion in 2013, that's more than double the wages of all the kindergarten teachers in America combined.

Or in China, soon to be the world's largest economy, the Gini coefficient of urban-rural inequality, has widened from about 0.16 to nearly 0.5, since 1978, when widespread reform and the opening up of its economy began.

There are, of course a host of other most disturbing examples.

From World War 1, until about the end of the 1970s, Australia was a relatively egalitarian society, indeed, one of the most egalitarian in the world. This egalitarianism has been eroded quite dramatically ever since.

Our land of "the fair go" is disappearing.

As the Report shows, the wealthiest 20% of households now account for 61% of total household net worth, whereas the poorest 20% account for just 1% of the total. In recent decades, the income share of the top 1% has doubled, and the wealth share of the top 0.001% has tripled, and the share of the one-millionth richest (the top 0.0001%) has quintupled.

Moreover, the inequality is worsening. Over the last decade, the richest 10% have enjoyed almost half of the growth in incomes, and the richest 1% has received 22% of the gains.

At the same time, poverty is increasing, and many of those reliant on government benefits, including unemployment benefits, have fallen below the poverty line.

Most disturbingly, defining the poverty line as 50% of median income suggests that some 575,000 (one child in six) were living in poverty in 2010. Some 37% of those living on government benefits were living in poverty, including 52% on Newstart allowance, 45% of those on a parenting benefit, 42% of those on a disability support pension, but only 14% of those on an aged pension.

Of course, inequality extends well beyond the distribution of income and wealth. Significant inequities exist between indigenous and non-indigenous Australians, between men and women, between urban and rural areas, between the able and the disabled, between the young and the aged, between highest and lowest performing schools, and so the list goes on, across our whole society.

Greater inequality leads to greater stratification of the community, with adverse effects on trust, self-image, and equality of opportunity for disadvantaged groups, all of which, in turn, have negative effects on health and social stability. There is also mounting evidence that inequality impedes productivity and economic growth.

Power, money and resources are distributed unequally across our social hierarchy.

As Friel and Denniss have pointed out, this leads to unfairness and inequity in the immediate circumstances in which people are born, grow, live, work and age, including levels of pay and other conditions of work, access to quality health care, schools and education, social protection, the affordability of homes, and the nature of communities, cities or towns.

Clearly there are many factors at work here. The Report identifies:

- globalisation in general, and the expansion of financial markets in particular
- asymmetric access to technological change
- the decline in union membership
- changes in compensation packages for top executives
- “rent seeking” behaviour, where wealthy, politically powerful and “privileged” companies, organizations and individuals use their position and resources to obtain economic gain at the expense of others without contributing to productivity.

By way of an aside, to add substance to this latter point, you could list big miners, big polluters, and even our big four banks, as examples. To expand on the Krugman example that I mentioned before, the hedge fund managers clearly don't deliver high enough returns to justify their obscene fees, and they're a major source of economic instability, indeed, may represent a significant threat to the stability of the global financial system.

While our political leaders seem to wax on endlessly assuring us all that “we were created equal”, or promising “equality of opportunity”, “fairness”, “equity”, a “fair sharing of the burden of adjustment”, and the like, their policies of the last several decades have clearly compounded the problem.

Most conspicuously, tax cuts and tax expenditure concessions concentrated on the better off, especially those in superannuation, have led the way, combined with the

failure to ensure that social security benefits kept pace with inflation, together with a host of other changes across many policy areas

As a result, inequality is getting worse, and today represents one of the most significant policy challenges.

As the Report says, to begin, there is an urgent need for a mature community debate about how inequality is impacting on our lives, our culture, our economy and our society.

The Report lists 9 other ways to advance Australia Fair:

2. Increase the fairness and adequacy of government revenue raising through taxation reforms
3. Implement fairer funding for schools
4. Invest nationally in early childhood development, especially for disadvantaged groups
5. Set all pensions and benefits no lower than the poverty line and index them to average wages
6. Establish more job creation programs in priority areas
7. Develop new models of employee management and cooperative ownership of business
8. Implement the World Health Organisation recommendations on social determinants of health
9. Encourage an inquiry by the Productivity Commission into the impact of inequality on economic efficiency and growth, and
10. Establish a national research program to monitor progress and test the impact of interventions aimed at reducing inequality

I might add another by suggesting that An Inequality Impact Statement be an essential attachment for all major policy proposals to Cabinet.

However, we need to ask ourselves whether there is sufficient and widespread dissatisfaction with the status quo for significant, if not radical change, in distribution?

The likes of Piketty would have us believe that capitalism faces an incipient crisis, with its inevitable inequality ultimately threatening social stability and democracy itself.

While there is mounting concern and dissatisfaction about rising inequality, I suggest it is no where near a scale that would drive radical redistribution – certainly not a scale that would see Piketty's dramatic increase in top tax rates, full disclosure of wealth, and a global wealth tax.

While the evidence that inequality has risen dramatically since the 70s is uncontroversial, it is also true that incomes for the bulk of households in most countries have risen over this period (the notable exception being the US) – that is, capitalism has generally made people better off, albeit at varying rates.

It is also probably true, as history suggests, people may accept inequality as long as there is social mobility, in particular that their children may have a chance at advancement, at making it to the top". This certainly seems to still be the case in the US, where inequality has risen sharply.

However, having made these points, I wouldn't want to be interpreted as not seeing the issue of inequality as significant and urgent. Much can and should be done to work towards more equitable distributions of both opportunities and outcomes, but we need to be realistic as to what we can hope to achieve, and at what pace.

There is obviously a growing electoral awareness of the issue, and a growing constituency for change. The reaction to the recent Budget makes the point,

Even though the Abbott Government were at pains to argue that "fixing the Budget" would be done by sharing the burden of adjustment, the electoral backlash was driven by the obvious inequity of the Budget measures proposed.

The Budget proposed a cut of some 12-15% in the disposable income of key lower income groups, but less than 1% for those on higher incomes.

Moreover, the Government burnt much of its political capital for little gain in terms of "fixing the Budget", especially when the unfunded challenges of meeting spending commitments still persist in the out years.

However, it is possible to achieve the desired changes in a more equitable way.

Consider some examples. Better targeting of the aged pension by means of reformed asset and income tests would have been more palatable if the pension had also been increased for those who genuinely qualify under the revamped tests, and if the superannuation tax concessions, which overtly favour the rich, had also been reduced, simultaneously.

Super concessions cost roughly the same as the aged pension, but are increasing faster. An example of a conspicuous benefit to the rich is the concessional tax on contributions, such that it costs a person on an annual income of \$20,000 about \$118 to gain a \$100 benefit, while it only costs a person on an annual income of \$250,000 a mere \$62.50 for the same benefit.

A surcharge on the super contributions by the upper income groups would have raised a considerable sum and ensured considerably more equity in the Budget's treatment of the aged.

In a similar vein, the decision to give universities the capacity to charge course fees would have been more defensible if the Government had decided to simultaneously shift overall funding from the universities to students by way of a voucher, thereby empowering the students to select courses and so driving the universities to compete in terms of both quality and price of the courses offered, only being funded if they are successful in attracting students.

Finally, it is hard to defend the Government's decision to maintain the FBT benefits on cars, again a decision that favours the wealthy, when the previous Government was

prepared to knock it off, when the Government has made a stand against further support for the car industry, and when it would have raised some \$1.8 billion.

Similarly, the Governments paid parental leave scheme (of which it was obviously embarrassed enough to bury in the Contingency Reserve, rather than debate its cost and incidence) could be made significantly less generous, with the savings more effectively and equitably redirected to more means tested child care.

Perceptions are hard to break in politics. Liberal-National Governments have always been tagged as tending to favour the wealthy and “the top end of town”. Given the state of flux reflecting widespread voter dissatisfaction that characterize politics today, I would suggest that the Abbott Government has a unique opportunity to “break the mould”. I know they promised “no surprises”, but what better surprise than to act decisively to reduce inequality in so many aspects of our society?

To conclude, as Joseph Stiglitz has argued, inequality is a choice. How big a gap between the “haves” and “have-nots” is acceptable in our so-called “egalitarian society”, and what can we reasonably expect our governments to do about it?

These are very important questions for an essential community conversation and as a direction for future government policy.

I am pleased to launch this Report “Advance Australia Fair? What to do about inequality in Australia” as it makes a very significant contribution to this debate, having collected the views of so many distinguished thinkers and policy makers on this issue.
